

# Ellerston Global Mid Small Cap Fund (Unhedged)

Performance Report | October 19

## PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	CYTD	1 Year	Since Inception (p.a.)
Net <sup>^</sup>	0.96%	4.20%	9.35%	27.35%	18.06%	13.85%
Benchmark*	0.42%	2.38%	5.25%	23.73%	15.57%	12.49%
Alpha	0.54%	1.82%	4.10%	3.62%	2.49%	1.36%

Source: Ellerston Capital

<sup>^</sup> The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

\* MSCI World Mid Cap Index (AUD)

## PORTFOLIO COMMENTARY

The Ellerston Global Mid Small Cap Fund (EGMS) (Unhedged) portfolio returned 0.96% during the month outperforming the benchmark by 54 bps.

Global equity markets pushed higher during the month as progress on key issues that have been overhanging the market continue to be addressed. "Phase One" of the US/China trade negotiations seems to be moving closer to a reality (although we have yet to determine whether tariff risk in December remains on the cards), risks around a no-deal Brexit are becoming less of a concern as the EU has extended the deadline to Jan 31<sup>st</sup> 2020 and while global economic activity indicators remain subdued, recent indications are pointing to stabilisation.

Contributors to performance this month included **Cardlytics**, **Tempur Sealy** and **Cellnex Telecom**. Detractors from performance included **LiveRamp**, **CoreCivic** and **Ciena**.

**Tempur Sealy** (TPX) is a global leader in mattress and bedding products (walk through a Harvey Norman and you will see its extensive range). We entered the position when the stock was being impacted by COGS inflation, illegal dumping of Chinese mattresses into the US and uncertainty whether it would re-establish relationships with its largest distributor, Mattress Firm, which emerged from Chapter 11 in November 2018. Fortunately all of these issues have been answered to the positive and TPX is now benefiting from COGS deflation, the US imposing new anti-dumping rules on Chinese mattresses in May 2019 and Management announcing in June 2019 that it has signed a new long-term agreement with Mattress Firm which will augment its 2020 results. TPX reported at the end of the month and delivered its 2<sup>nd</sup> upgrade for the year. Despite its strong share price performance, we consider current valuation to remain attractive and have maintained our positioning in the stock.

**Cardlytics** (CDLX) provides cash back reward offers to credit and debit card users inside some of the World's largest banks' mobile applications which is paid for by advertisers. Some of its larger banking customers include Bank of America, JP Morgan, Lloyd's Bank and most recently, Wells Fargo. We consider that there is a growing distrust around the actual ROI on large advertising platforms such as Google and Facebook. CDLX can return very precise measurements on campaigns as it is integrated within its banking customers and, with Wells Fargo, will be able to "see" one out of every two card swipes in the US. Banks benefit from higher customer retention and card spending, consumers benefit from cash back on purchases and advertisers get a much higher return on digital advertising spend than on traditional channels. With a market cap of just over \$1bn we consider the long-term upside very attractive.

**Sensata** (ST) is a global leader in mission critical, high performance sensing products however with 60% of its business tied to the currently weak global automotive cycle its share price had been under pressure which provided an opportunity to enter the stock recently at a very attractive valuation. While auto headlines continue to be a headwind, it is benefiting from increasing regulatory and legislative demands around safety and performance which is increasing sensor content per vehicle. ST will also be a key beneficiary of increased content associated with electric vehicles where content per car will increase substantially. ST reported during October and as expected downgraded numbers for the second time this year as global industrial markets remain under pressure. Interestingly, the stock price performed well and is currently above levels before the results were released. We consider the market is looking through near term economic weakness and understanding that at some point it will be cycling current weak operating conditions with long term sensing content growth drivers firmly in place.

Kind Regards,

Bill Pridham and Arik Star

Co-Portfolio Managers

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### Investment Objective

To outperform MSCI World Mid Cap NR (AUD) benchmark by 3% over a rolling 5 year period on a net of fees basis, with a focus on risk management and capital preservation.

### Investment Strategy

The Fund's investment strategy is to construct a concentrated portfolio of global mid small securities using the Manager's distinctively contrarian high conviction, benchmark independent investment approach. The Manager believes that the trade-off between risk and potential returns at the portfolio level is improved by implementing highest conviction ideas from a filtered universe of securities that are in a period of "price discovery" and offer the best risk/reward.

### Key Information

Strategy Inception	1 March 2017
Portfolio Manager	Bill Pridham & Arik Star
Application Price	\$1.1959
Net Asset Value	\$1.1929
Redemption Price	\$1.1899
Liquidity	Daily
No Stocks	20 - 40
Management Fee	0.75%
Performance Fee	10%
Buy/Sell Spread	0.25%/0.25%

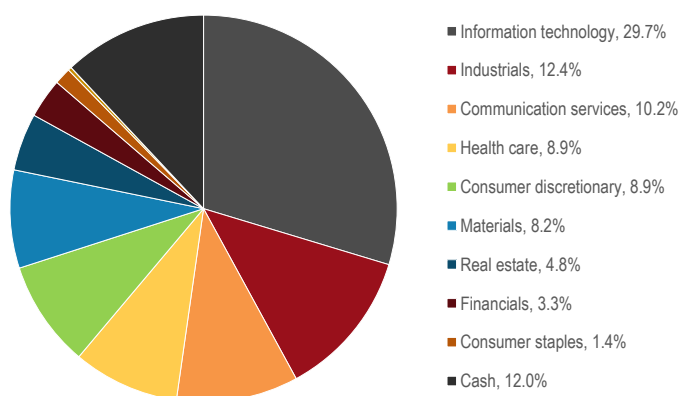
\*10% of the investment return over the benchmark return (MSCI World Mid Cap Index (AUD)), after recovering any underperformance in past periods.

# PORTFOLIO CHARACTERISTICS

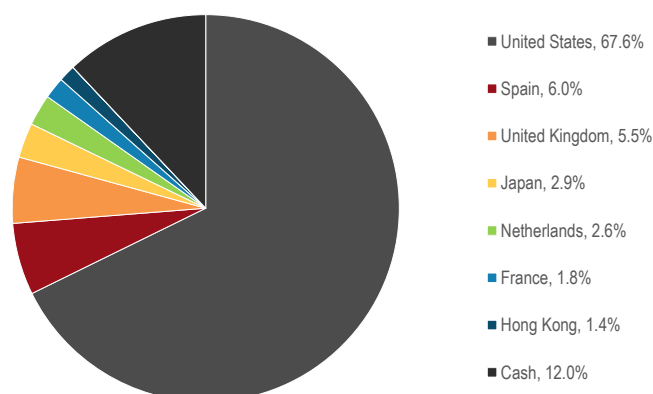
## HOLDINGS

Top 10 holdings	Country	Sector	%
Graphic Packaging	United States	Materials	5.7%
Cellnex Telecom	Spain	Communication Services	5.6%
Ciena Corporation	United States	Information Technology	5.0%
WillScot Corporation	United States	Industrials	4.9%
Tempur Sealy International Inc	United States	Consumer Discretionary	3.7%
Interxion Holding	United States	Information Technology	3.5%
Amedisys, Inc.	United States	Health Care	3.5%
Premier Inc	United States	Health Care	3.4%
Assurant, Inc.	United States	Financials	3.3%
PVH Corp.	United States	Consumer Discretionary	3.3%

## SECTOR ALLOCATION



## GEOGRAPHIC ALLOCATION



Source: Ellerston Capital

All holding enquiries should be directed to our registrar, [Link Market Services](https://linkmarketservices.com.au) on 1800 992 149 or [ellerston@linkmarketservices.com.au](mailto:ellerston@linkmarketservices.com.au)

Should investors have any questions or queries regarding the fund, please contact our [Investor Relations team](mailto:investorrelations@ellerstoncapital.com) on 02 9021 7797 or [info@ellerstoncapital.com](mailto:info@ellerstoncapital.com) or visit us at <https://ellerstoncapital.com/>

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